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AERICAN-SOVIET TRADE

by

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| | Page |
|--|------|
| RED TRADE OVERTURES TO UNITED STATES | 653 |
| Small Volume of Present Trade Exchange | 653 |
| Soviet Drive to Open American Trade Doors | 654 |
| Likely Purchases and Sales in United States | 656 |
| Policy Concessions Demanded by Soviet Union | 657 |
| DETERRENTS TO THE EXPANSION OF TRADE | 659 |
| Insubstantial, Sporadic Nature of Soviet Trade | 660 |
| Reluctance of U.S. Firms to Trade With Russia | 661 |
| Difficulty of Dealing With a Trading Monopoly | 662 |
| State Department Challenge to Soviet Traders | 663 |
| OUTLOOK FOR AMERICAN-SOVIET COMMERCE | 664 |
| Soviet Attempts to Demonstrate Good Faith | 664 |
| Debate Over Current Controls on U.S. Exports | 665 |
| Question of Long-Term Credits for Soviet Union | 667 |
| Advantages in Liberalizing Policy on Red Trade | 669 |

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AMERICAN-SOVIET TRADE

TRADER between the United States and the Soviet Union, of inconsequential dimensions during the past decade, may assume increased importance as a result of Premier Khrushchev's coming visit to this country and President Eisenhower's later visit to Russia. Soviet leaders for more than a year have been trying to convince Americans that expansion of trade would serve the interests of the two great powers. Khrushchev, keynoting the campaign in a letter to the President dated June 2, 1958, asserted that a large-scale interchange of goods would "be of great mutual benefit to both countries" and would "further the cause of world peace." The Soviet premier quoted the late Secretary of State Cordell Hull to the effect that "Commerce and association may be the antidote for war."

Secretary of Commerce Frederick H. Mueller voiced the position which the Eisenhower administration has taken since Khrushchev's initial overture when he said, Aug. 7, that he favored expansion of commerce with Russia but only on mutually advantageous terms. "There is plenty of scope for increased trade" right now, Mueller said. "If Moscow truly seeks increased trade with us—as its spokesmen currently are saying—it can sell us more of what we really want and buy more of what we offer, provided, however, such commerce is not contrary to United States foreign policy and is not detrimental to our national security."

SMALL VOLUME OF PRESENT TRADE EXCHANGE

The United States in 1948 imported \$87 million worth of goods from Russia and exported \$28 million worth to Russia. Since that year, when the cold war began in earnest, the volume of trade has been far smaller—so small, in fact, that one or two big shipments often have been enough to double the import or export total from one month to another. Such month-to-month variations have made it fruitless to look for up-or-down trends in the trade over any short term.

Editorial Research Reports

Last year the United States bought \$17.6 million worth of Russian goods—mostly furs, benzene, and platinum—and sold to the Soviets \$3.5 million worth of American goods—principally steel, chemicals, and machinery. Imports from Russia during the first six months of 1959, on the other hand, had a value of \$13.9 million and exports to Russia a value of \$3.4 million. But the fact that these figures approached the totals for the whole year 1958 hardly indicated a great forward surge in American-Soviet trade. For well over one-half of the trade in the first six months of 1959 took place in January and February and the exchanges in the following months were much smaller.

Trade of the Soviet Union and the United States in 1958 amounted to only 0.5 per cent of total Soviet foreign trade that year, and to only about 0.01 per cent of total American foreign trade. Even if U.S. imports from Russia should be as large in the second half of 1959 as in the first half, the total for the year would come to only one-seventh of the value of this country's annual imports from Malaya; on the same basis the exports to Russia in a year would no more than equal U.S. exports to Peru in two weeks.

SOVIET DRIVE TO OPEN AMERICAN TRADE DOORS

Launching the drive for increased trade 15 months ago, Khrushchev said the U.S.S.R. wanted to enter into a long-term trade agreement with the United States under which Soviet purchases "might amount to several billion dollars in the next few years." Since then, Khrushchev and other Soviet leaders have pressed the campaign for a trade agreement at every opportunity. Methods employed have ranged from stressing the profit potentialities in peaceful commerce to intimating that American refusal to step up trade hides an intention to precipitate war.

The Khrushchev letter of June 2, 1958, was followed immediately by an article in *USSR*, a Soviet magazine published for circulation in this country, which pointed out that "At the present time the United States is the only great power which does not have a trade agreement with the Soviet Union." The author said Russia was "prepared to place large orders with American firms" that would "help to spur American industrial activity" and to increase consumer goods available to American buyers.¹

¹ Oleg Bogomolov, "Great Possibilities of Soviet-American Trade," *USSR*, No. 8 [August], 1958, p. 12.

American-Soviet Trade

When Adlai E. Stevenson visited Russia in the autumn of 1958, Khrushchev suggested to him that the many American restrictions standing in the way of large-scale trade with Russia evidenced insincerity on the part of this country. The United States was critical of Soviet concentration on heavy industry at the expense of consumer goods, but it refused to improve the situation by helping to build up, for example, the Soviet chemical industry. Khrushchev said that "The Russian people now see that Americans are not really concerned about the Russians' welfare but are pursuing political aims of their own." First Deputy Premier Anastas I. Mikoyan told Stevenson that trade expansion would be "virtually impossible" unless the United States abandoned "present discriminatory practices."²

While visiting the United States last winter, Mikoyan talked up trade possibilities with American businessmen at every chance. But when the Soviet deputy premier emerged from a long conference on Jan. 19 with C. Douglas Dillon, Under Secretary of State for Economic Affairs, he snapped angrily: "The cold war is going on in the State Department." Mikoyan complained to reporters that the department was "not prepared to repeal those discriminatory restrictions which are in the way of expanding shipment of Soviet goods to the United States in order that we could place big orders."

Another visiting Soviet official, First Deputy Premier Frol R. Kozlov, observed before a San Francisco audience early in July: "We are neighbors. The shores of our countries are washed by the same Pacific Ocean. Therefore, we favor development of trade between our two countries across this ocean." Kozlov, stressing peaceful trade wherever he went, asserted that improved economic relations with the U.S.S.R. could mean billions of dollars' worth of commerce, new outlets for the products of American industry, added jobs for American workers. At about the time Kozlov was speaking in San Francisco, Khrushchev in Moscow was telling Gov. Robert B. Meyner of New Jersey and five other visiting American governors that "We are in a position to catch up with you irrespective of whether you trade or not."

Our positions are clear [Khrushchev continued]. As long as there is no trade there cannot be an exchange of ideas. As long as that is your position on trade, we shall always regard you with

² Adlai E. Stevenson, copyright article for North American Newspaper Alliance, published in *New York Times*, Oct. 3, 1958.

Editorial Research Reports

suspicion. People who want to live in peace trade. When they prepare for war, or after the beginning of war, there is no trade. Therefore we have the right to think that since we have not fought and stopped trade, you have ulterior motives.³

The manifold arguments used by Soviet leaders to press for increased trade—plus the impressive exhibits of finished manufactures recently displayed in New York and Moscow—have stimulated interest in precisely what it is that Moscow wants to buy from and sell to the United States.

LIKELY PURCHASES AND SALES IN UNITED STATES

Soviet leaders have been fairly frank in stating that what they are seeking mainly is advanced American technology. They have insisted that Russia has at its command all the basic knowledge and resources needed to develop and produce the products and equipment sought in the United States. The chief advantage of trading with this and other capitalist countries, they have said, is to speed up the attainment of Soviet industrial goals. Khrushchev wrote in his letter to President Eisenhower last year that the U.S.S.R. wanted to make large-scale purchases from American companies "in order to expedite" its "new and extensive program for a further increase in the production of consumer goods."

Heading the list of what the Soviet Union would like to obtain from the United States are chemicals, petrochemicals, and synthetics (chiefly plastics and textiles). Khrushchev on several occasions has said he would like to import, in this connection, "complete equipment for plants and factories," including entire technologies and, in some instances, technicians. In addition to chemicals, plastics, and synthetic fibers—and the technology to produce them—the Soviets have expressed interest in refrigeration and air conditioning equipment; pumps and compressors; television equipment; packing, packaging, and automatic vending machines; machinery for producing cellulose, paper, textiles, shoes, and food and wood products; and machinery for the mining industry, the building industry, and the mechanization of construction—hoisting, moving and other equipment. Khrushchev has voiced a desire also for "a number of industrial materials and finished products," including

³ Robert B. Meyner, copyright article for North American Newspaper Alliance, published in *New York Times*, Aug. 16, 1959. Meyner noted that quotations in his article were a "rough approximation" of what was said "since a stenographer was not permitted at our interviews."

American-Soviet Trade

steel pipe, chemical products, medical supplies, and "certain consumer goods."

As payment for the large purchases they wish to make in this country, Soviet leaders have said they are prepared to deliver manganese and chromium ores, ferrous alloys, platinum, palladium, asbestos, potassium salts, lumber, cellulose and paper products, chemical products, furs, iron ore, food products, and "a number of types of modern machinery and equipment."

POLICY CONCESSIONS DEMANDED BY SOVIET UNION

Moscow has stressed, however, that the United States will have to make important concessions before large-scale trade can take place. Four major changes in American policy are sought. First, the Soviets ask restoration of most-favored nation tariff treatment for Russian imports into the United States. Congress withdrew this privilege from the U.S.S.R. and its satellites during the war in Korea.⁴ According to the commercial counselor of the Soviet embassy in Washington, that action had the following effects: "Custom duties on our manganese ore increased fourfold; on ferrochromium and ferromanganese, threefold; on some sawn timber materials, fourfold; on birch plywood, threefold; on tobacco, twofold; on liquor (including vodka), fourfold; on canned salmon, almost twofold as compared with the duties on the same goods imported from other countries."⁵

Secondly, the Soviet Union wants to be able to sell crabmeat in the United States. In 1951, the Treasury Department, acting under a section of the Tariff Act of 1930 prohibiting entry of products of forced labor, barred importation of Soviet crabmeat on the ground that it was produced by Japanese prisoners of war and Soviet detainees. The "crabmeat issue" has been a source of great irritation to Moscow. It has called the ban an insult and has refused to permit an on-the-spot investigation of crabmeat processing.

Thirdly, Russia seeks removal of the controls imposed by Congress in 1948 on commercial exports to the Soviet Union and its satellites. Some of the American products

⁴ Under terms of the Trade Agreements Extension Act of 1951, the President proclaimed abrogation (as of Jan. 5, 1952) of the 1937 commercial agreement which had granted most-favored-nation treatment to the Soviet Union.

⁵ Vladimir S. Alkhimov, "Soviet Foreign Trade Channels," *Annals of the American Academy of Political and Social Science*, July 1959, p. 34.

Editorial Research Reports

that interest the Russians are flatly embargoed as strategic materials with potential military applications. Almost all of the other products the Russians would like to buy require export licenses—documents which, to judge from recent rulings, the Department of Commerce is more disposed to deny than to grant.

Finally, the Soviet Union wishes to finance purchases in this country through long-term credit arrangements. The standard Soviet line in this regard is that "Since American firms are more concerned at the present time with selling rather than buying, the Soviet Union is prepared, for the first few years, to buy more than it will sell, if the United States agrees to the usual long-term credit and instalment payment arrangements normal in international trade."⁶ This presumably means that the U.S.S.R. is short of foreign exchange and also short, for the time being, of goods it is willing to offer for sale abroad.

Under Secretary of State Dillon told a New Orleans audience last Jan. 27 that the Soviet request for long-term credits "was presented to me as an absolute precondition to increased trade during my talks with Mr. Mikoyan." Long-term credits could be extended to the Soviet Union through the Export-Import Bank. However, the State Department has informed Chairman J. W. Fulbright (D Ark.) of the Senate Foreign Relations Committee that "The administration does not favor granting government credits to the Soviet Union at this time." Reasons cited were that such action would strengthen a potential enemy; would be "most inappropriate now when requests for loans to assist the newly developing countries of the free world far exceed available U.S. funds"; and would be inappropriate by reason also of the Soviet Union's failure to settle lend-lease and other outstanding obligations to the U.S. government.⁷

⁶ This statement was made in identical language by Oleg Bogomolov, "Great Possibilities of Soviet-American Trade," *USSR*, No. 8, 1958, p. 13, and by Vladimir S. Alkhimov, "Soviet Foreign Trade Channels," *Annals of the American Academy of Political and Social Science*, July 1959, p. 95.

⁷ Senate Foreign Relations Committee, *U.S.-U.S.S.R. Trade Relations* (June 24, 1959), p. 12. For further details, see p. 667 of this Report.

Deterrents to the Expansion of Trade

RESTRICTIONS on commerce with the Soviet Union have doubtless blocked trade that otherwise would have developed. However, State Department and Commerce Department officials and many business executives consider the existing impediments of secondary importance. They would not be retained, it is reasoned, if the underlying deterrents to trade exchanges were done away with. Under Secretary Dillon expressed the prevailing administration view when he told the Overseas Press Club in New York on May 7: "The United States would welcome an expansion of peaceful, two-way trade with the Soviet Union. . . . But we are not sanguine as to the prospects for the expansion of *satisfactory* and *continuing* trade relations."

One reason for doubt as to the possibility of establishing satisfactory commercial relations with the Soviets is the way they have gone about trying to obtain the right and the financial facilities to buy almost anything they choose in the United States. On the heels of Khrushchev's initial overture in June 1958, cold war tensions were markedly heightened by a series of aggressive Communist acts and demands—first in the Middle East, then in the Taiwan Strait, later with regard to Berlin. Meanwhile, Soviet leaders went right on extolling the benefits of expanded trade with this country. The view eventually evolved in Washington that Moscow was seeking to generate pressure on the U.S. government in three ways: by appealing to the American businessman's desire for profits, by appealing to the American citizen's desire for peace, and by projecting the image of the Soviet Union as a world champion of peace through commerce.

Administration leaders have pointed out that only about 10 per cent of all American products moving in international commerce are subject to embargo. Mikoyan reportedly complained to a group of Detroit businessmen that "All your government will let us have is chewing gum, firewood, and laxatives." But in addition to 900 products which require no specific export licenses, the Department of Commerce has recently authorized shipment to the Soviet Union of such varied articles as agricultural machinery, scientific and professional instruments, galvanizing equipment, textile machinery, electrical heating units

Editorial Research Reports

for industry, polio vaccine, rubber processing chemicals, and certain types of steel sheet and copper.

Under Secretary Dillon said at New Orleans: "We offer the Soviets the opportunity to purchase unlimited quantities of food, clothing, household appliances, and other useful consumer items with which a free economy is blessed. . . . In truth, the only thing the Soviet Union needs to do if it *really* wishes to expand trade with us is, quite simply, to begin trading." Cold war tensions, however, have helped to increase both Russian reluctance to buy American consumer goods and American reluctance to sell the products of advanced technology to the Soviets.

INSUBSTANTIAL, SPORADIC NATURE OF SOVIET TRADE

The *Morgan Guaranty Survey* observed recently that "The deterrents to any substantial build-up of Soviet-American commerce . . . go deeper than cold war tension and antedate it historically."⁸ A continuing and overriding goal of Soviet planners since the Bolshevik revolution more than 40 years ago has been economic self-sufficiency. This dedication to deliberate isolation of the Soviet economy from world market forces has had important consequences.

First, it has meant that the Soviet Union has never developed into an important world trader. Dillon pointed out on Jan. 27 that "Despite large percentage increases over the low levels of Stalin's time, the second largest economy in the world now exports to the free world at only the level of a country the size of Denmark." Former President Hoover noted in a speech on April 9: "In the six years from 1934 through 1939 . . . , there were no important restrictions on trade between the United States and Communist Russia. But our exports to their 180 million people averaged only about \$40 million yearly. Our imports from them averaged about \$20 million each year." Hoover observed that "This microscopic amount of trade is a little less or a little more than our trade today with Denmark or Finland or the Dominican Republic or Ecuador or Liberia."

Russia's drive for self-sufficiency has rendered its foreign trade not only relatively small in volume but also sporadic. The U.S.S.R. never has developed major imports or exports on a sustained basis. During the late 1920s and

⁸ "A Closer Look at Soviet Trade Overtures," *Morgan Guaranty Survey*, August 1969, p. 7.

American-Soviet Trade

early 1930s the emphasis was on importing heavy machinery and equipment incorporating the latest technological advances. By tapping the advanced technology of the West, the Soviets were able to gain years in terms of industrial progress, but once the purposes of the procurement program were achieved, imports were curtailed. Soviet purchases in the West dropped from 3.8 billion rubles in 1931 to 841 billion rubles in 1935. American sales to Russia plummeted from around \$100 million in 1931 to \$12 million in 1932.

Dillon asserted on May 7 that "The Soviet Union in its trade with the West today is motivated by the same autarkic considerations as in the thirties." When Russia has needed foreign exchange "to buy imports of plant and machinery for one or another of her 'plans'," the *Morgan Guaranty Survey* observed, "she has made dramatic and sometimes disruptive forays into world markets." Thus Soviet sales of tin to the free world jumped from 189 metric tons in 1955 to 12,000 tons in 1957 and to 18,000 tons last year. Aluminum sales, which totaled only 1,000 tons in the 1951-54 period, rose to 81,000 tons in the 1955-57 period. Yet a Russian official told the 21st Communist Party Congress early this year of a serious aluminum shortage in the Soviet Union.

RELUCTANCE OF U.S. FIRMS TO TRADE WITH RUSSIA

A country whose foreign trade is subject to such wide fluctuations is neither a dependable supplier nor a dependable customer. The largest potential for an increase in Soviet exports to the United States lies in the field of raw materials. Most American companies, however, prefer to develop steady and assured sources of supply; indeed, many of them have gone to considerable expense to build up such sources overseas.

A recent document on *U.S.-U.S.S.R. Trade Relations*, prepared by the State Department for the Senate Foreign Relations Committee, observed that "In general, U.S. industry may be hesitant" to replace present free world sources of raw materials in view of a "previous abrupt cessation of Soviet shipments" of many raw materials in 1948.⁹ Another reason for reluctance to buy Soviet raw

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Editorial Research Reports

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American-Soviet Trade

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Editorial Research Reports

materials stems from realization of the adverse effect such action might have on friendly countries. The *Morgan Guaranty Survey* pointed out in August:

More than adequate supplies of virtually all industrial raw materials which the Russians have shown any interest in selling—such as manganese and chromium ores, asbestos, iron ore, lumber, and ferrous alloys—are currently being offered by friendly countries, in many cases by underdeveloped nations which the U.S. is engaged in aiding. Any important shift of American purchasing to the Soviet Union would aggravate the foreign-exchange shortages of those countries, and perhaps necessitate an increase in American aid to them.

Even if a few individual firms were willing to jeopardize relations with friendly countries that have become regular suppliers, many others would hold off merely out of respect for American public opinion, a substantial body of which looks critically upon any kind of trade with Russia.

Many American companies are as reluctant to sell to as to buy from Russia. This is particularly true of companies and industries whose products incorporate new designs and processes. William H. Peterson, professor of business administration at New York University, wrote recently: "Communists can buy any American product, copy it practically with impunity, and save all the research and other expenses." He noted that Soviet-built cars "bear a striking resemblance to Ford, Buick, and Packard models of ten years ago." Other pirated products mentioned by Peterson were antibiotics, airbrakes, and tubes made from sheet aluminum.¹⁰ Herbert Hoover, referring last April 9 to the International Patents and Copyrights Agreement by which inventions and writings "are protected for a just and fair return," observed that "The Communist governments have not only refused to sign this agreement but they have ruthlessly appropriated these ideas from the whole free world."

DIFFICULTY OF DEALING WITH TRADING MONOPOLY

Trading with Communist countries is complicated by the necessity of having to deal with a state trading monopoly. The Soviets are able to exercise complete control over their foreign commerce without applying formal restrictions, because the government is the sole trading agent. There are no market prices under communism—no clear reckon-

¹⁰ William H. Peterson, "Should We Trade With the Communists?" *Harvard Business Review*, March-April 1959, p. 52.

American-Soviet Trade

ing of actual costs, no market equilibrium of supply and demand.¹¹

In the 1930s the Soviet state trading monopoly was able to procure capital equipment from abroad by exporting grain at prices below an already depressed world market. Carroll Kilpatrick recently pointed up "the extreme difficulty of doing business with Russia on normal pricing terms" by reporting that the same Soviet-made automobile that sells for 10,000 rubles or more in Russia has been marketed "in Greece for 3,300 rubles, in Iceland for 4,700, in Sweden for 4,400, and in Argentina for 2,500 rubles."¹²

The Soviet trading monopoly is at liberty under American law to sell any Russian goods in this country's free market and to buy here any product whose export is not restricted for national security reasons. Its American outpost in New York, the Amtorg Trading Corporation, has wide commercial contacts. However, Amtorg has shown little inclination to buy American consumer goods. Peterson has observed that "Communist nations regard their home markets as strict preserves of the state; in other words, they are ultraprotectionist to the *nth* degree."¹³ As for selling, Amtorg, like other outposts of the Soviet trade monopoly, has built up an export pattern in its dealings with the West which is not unlike that of many underdeveloped countries: Soviet exports consist mainly of raw and semi-finished materials, sold in bulk.

STATE DEPARTMENT CHALLENGE TO SOVIET TRADERS

Under Secretary Dillon listed in his New Orleans address last January some of the steps Soviet leaders might take to lay the groundwork for expansion of trade with this country:

First, make firm arrangements to settle outstanding Soviet debts.

Second, permit a greater degree of access by private American firms to both producing and consuming units in the Soviet Union.

Third, introduce a measure of predictability into Soviet foreign trade relations, by making public their intentions with respect to specific goods they intend to buy and sell.

Fourth, take measures to provide assurance to foreigners of genuine protection for private industrial property rights as well as authors' rights.

¹¹ See "State Trading," *E.R.R.*, 1947 Vol. II, p. 593.

¹² Carroll Kilpatrick, "Khrushchev's Economic Offensive," *Virginia Quarterly Review*, Summer 1959, p. 375.

¹³ William H. Peterson, "Should We Trade With the Communists?" *Harvard Business Review*, March-April 1959, p. 52. The name Amtorg is an abbreviation of the Russian words for "American trade."

Editorial Research Reports

Finally, demonstrate firmer adherence to business principles—instead of turning trade off and on, as Soviet leaders so frequently do in the interest of political expediency.

Dillon acknowledged that "Establishing firm and dependable commercial relations with private firms in the free world does not come easily to a Communist state trading monopoly." It may be questioned, in fact, whether the Soviet Union or any Communist country can ever be persuaded to follow some of the above recommendations.

Outlook for American-Soviet Commerce

AMERICA AND RUSSIA are not likely to develop trade exchanges on a large scale unless each country makes major concessions to the other. Whether the Eisenhower-Khrushchev conversations will open the way to important concessions is problematical. In any case, however, American-Soviet trade may be expected in natural course to rise above its present low level.

The Soviet Union has been trying in recent months to convince U.S. officials and American businessmen of its good faith as a trader. With payment of \$1.5 million, it settled a wartime patent claim of E. I. du Pont de Nemours & Co., and it has shown readiness to consider neutral arbitration of trade disputes. A part of the reluctance of American companies to deal with the Communists has been lack of adequate protection against breach of contract—for example, failure to meet specifications, delivery dates, indicated qualities and quantities, and the like. Soviet negotiators, when pressed, have agreed to make provision in trade contracts for arbitration, but usually arbitration only by Soviet or satellite tribunals. Consequently, the American businessman has not felt fully protected. Now the Russians seem more willing to agree in advance to arbitration in neutral countries—Sweden, for example.

Some indication of Soviet readiness to resume discussion of United States lend-lease claims has been detected recently. Following World War II, Washington asked all countries which had received lend-lease aid to make partial repayment for civilian-type goods remaining in their possession. The value of such goods in the hands of the Soviet

American-Soviet Trade

Union—the only major country with which a settlement has not been reached—amounted to \$2.6 billion. When the matter was last discussed, in 1951, the United States offered to settle the account for \$800 million payable over a long term of years at a low rate of interest. Moscow would not go above \$300 million, and negotiations were broken off. Signs of a Soviet disposition to reopen negotiations for settlement of past obligations presumably do not extend to a World War I debt of the Kerensky government for which its Soviet successors never accepted liability.¹⁴

Some time will have to elapse before it is clear whether the Soviets are prepared to follow through on current efforts to demonstrate good faith. The display has not yet been sufficiently convincing to raise expectations of more than minor concessions on U.S. trade restrictions.¹⁵ Nothing short of substantial and far-reaching concessions, it seems plain, will be necessary if the United States is to consider letting the Soviet Union have what it wants most—American products incorporating hard-to-come-by technology, and long-term credits from American sources.

DEBATE OVER CURRENT CONTROLS ON U.S. EXPORTS

United States law has required individual licensing of almost all export goods desired by the Soviet Union. For items considered strategic or in short supply, included on the "positive list" of the Department of Commerce, individual approval is required for sale to any country except Canada. The "positive list" has been periodically revised and updated. From the beginning, in 1949, applications to export items on that list to the Soviet bloc have been subject to what the Commerce Department calls a "presumption of denial."¹⁶

In the first quarter of 1959 the Commerce Department refused licenses for shipments to the Soviet Union valued at about \$15 million; licenses were approved for only \$376,000 worth of exports to that country. The major rejected applications were for shipments of \$10.4 million worth of polyethylene ("squeeze-bottle" plastic), \$2.5 million worth

¹⁴ See p. 668.

¹⁵ Minor concessions might include, for example, lifting of the import ban on crabmeat, which could be effected through an administrative finding that Soviet crabmeat was no longer a product of forced labor. Major types of Russian furs, including ermine, fox, marten, mink, and muskrat, could be imported only if Congress removed an embargo imposed by the Trade Agreements Extension Act of 1951.

¹⁶ The United States permits no trade whatever with Communist China, North Korea, or North Vietnam. On the other hand, restrictions are less severe in the case of Poland than of other Soviet-bloc countries of Eastern Europe.

Editorial Research Reports

of large-diameter, carbon-welded steel pipe, and \$1.8 million worth of stainless steel plates and shields. In the second quarter of 1959, the department approved licenses for shipment of \$3.3 million worth of goods to Russia and denied licenses for goods valued at \$10.6 million. Applications were rejected for exports of stainless steel plates, stainless steel, seamless steel tubing, copper scrap, electrolytic copper, silicon steel transformer sheets, a chrome alumina catalyst, and X-ray defraction units.

Frank W. Sheaffer, deputy director of the Commerce Department's Office of Export Supply, observed in a speech last Nov. 6: "The processing of these applications is one of the knottiest problems that the bureau has ever faced. . . . The same type plant that produces motor grade gasoline can make aviation fuel. The same type plant that produces fertilizer can produce explosives. The same plastic that is used for squeeze bottles and packaging also goes into proximity fuses and military communications wire." Sheaffer added: "The main considerations which we employ in studying such inquiries or applications are two. First, does the proposed sale of equipment or technical data involve items of significant strategic importance? And, second, would a denial be meaningful—or would it only result in making it easier for a foreign firm to get the business?"

A wide body of opinion holds that strategic controls on exports to Russia are interpreted and applied too strictly. Louis Fischer, an American writer specializing in Soviet affairs, asserted recently: "Washington must see that it cannot by restricting trade with the Soviet Union appreciably damage her economy or war potential; this is pure nonsense." Pointing out that the efficacy of a policy must be judged by its results, Fischer asked rhetorically: "Is not the Soviet Union a very great military power, has she not launched sputniks, does she not have jet planes and missiles, do we not complain that she is perhaps superior to the United States, and has she not done all this in spite of our trade policy?"¹⁷

Carroll Kilpatrick, while contending that licensing controls are "a proper if not complete protection for American technology against Communist pirating practices," has observed: "The difficulty is that many of our allies, not-

¹⁷ Louis Fischer, "The Soviet-American Antagonism: How Will It End?" *Annals of the American Academy of Political and Social Science*, July 1959, p. 38 and p. 44.

American-Soviet Trade

ably Great Britain and West Germany, have less stringent controls. . . . Overly restrictive enforcement of controls on our part . . . sometimes plays into the hands of Russian propaganda unnecessarily and denies business that might as well go to American as European firms." Kilpatrick recalled that after the Department of Commerce had refused early this year to let an American company export \$2.6 million worth of steel pipe to Russia, the Soviets placed the order with a firm in West Germany.¹⁸

Great Britain last May 24 entered into a five-year trade pact with the Soviet Union under which Russian imports from Britain may total \$280 million over the period. In return, Russia is expected to ship about \$220 million worth of goods to Britain. No government loans are involved; any needed British credits will have to come from private sources. When the trade pact was under negotiation last spring, Paul Einzig, London correspondent of the *Commercial and Financial Chronicle*, wrote:

It is even conceivable that one of the main reasons Khrushchev put forward his demands for the change in the status of West Berlin is to strengthen his bargaining position, in order to be able to obtain large credits. This may sound fantastic. But we must bear in mind that Mr. Khrushchev's position in Russia depends on his ability to increase the volume of consumer goods without neglecting either capital investment or the maintenance of superior armed forces. To be able to do so he needs large external credits.

Einzig concluded: "It might be well worth his while to make substantial concessions in the political field for the sake of getting financial aid."¹⁹

QUESTION OF LONG-TERM CREDITS FOR SOVIET UNION

Arranging the long-term credits which the Soviet Union insists it would have to have, in order to increase its purchases in this country, involves ultimately a government policy decision. Spokesmen for the Eisenhower administration have made it plain that Washington is not disposed to extend any direct loan to the Soviet Union or to ask Congress to remove certain legal inhibitions now standing in the way of independent grants of private credit to Soviet purchasers. They have not mentioned the possibility of making both public and private credit available through the Export-Import Bank without change of existing law.

¹⁸ Carroll Kilpatrick, "Khrushchev's Economic Offensive," *Virginia Quarterly Review*, Summer 1959, pp. 376-377.

¹⁹ *Commercial and Financial Chronicle*, April 9, 1959.

The legal obstacle to credit arrangements most frequently cited is the Johnson Act of 1934. That statute made it unlawful for any individual, partnership, or corporation to purchase or sell in the United States the subsequently issued "bonds, securities, or other obligations" of any foreign government in default on obligations to the United States government, or to make any loan to such foreign government. The Johnson Act, expressing the reaction of Congress to defaulting of World War I debts, shut off the American money market to potential borrowers among this country's 1917-18 allies. Russia was included in that group because, following the abdication of Czar Nicholas II, the United States had loaned \$188 million to the Kerensky government and then almost \$5 million to White Russian groups that took up arms against the Bolsheviks after they came into power. The Soviet government refused to recognize responsibility for that indebtedness which, with accrued interest, now totals \$573 million.²⁰

Much of the sting of the Johnson Act for foreign governments was removed by legislation enacted in 1945. The act by which the United States accepted membership in the International Monetary Fund and the International Bank for Reconstruction and Development lifted the prohibitions of the 1934 law generally for all affected nations which became members of the new financial institutions. The Soviet Union has not joined the Fund or the Bank, but the Export-Import Bank Act of 1945 allowed financial institutions or other private corporations to participate in Export-Import Bank loans to countries to which private sources of credit would otherwise have been closed by the Johnson Act.

From the beginning, the prohibitions of the Johnson Act did not apply to U.S. government corporations. During debate on the bill in the House, April 4, 1934, Rep. L. T. McFadden (R Pa.), ranking minority member of the Banking and Currency Committee, stated that the section of the measure carrying that exemption had been included to give the government authority to lend money to Russia. Less than two months earlier, the first Export-Import Bank had been created for the purpose of financing the trade with Russia that was expected to develop following recognition of the Soviet government in November 1933. However,

²⁰ Obligations of the Czarist government outstanding in the United States are all owed to private bondholders, not to the U.S. government, and hence do not come under the provisions of the Johnson Act.

American-Soviet Trade

while the Johnson bill was pending, assurances were given to the House that no credit transactions with the Soviets would be undertaken by the bank until the Russian debt had been settled.²¹

The unsettled and unrecognized Kerensky debt still stands in the way of independent American private credits to the Soviet Union. However, there is no legal bar to granting of Export-Import Bank credits to finance exports to Russia, and private individuals, banks, and corporations could take participations in those credits. It is to be remembered at the same time that the Export-Import Bank, whose board of directors includes the Secretary of State, would not extend credits in violation of general government policy on the question. Administration policy on trade with Russia therefore remains the controlling element in the situation.

ADVANTAGES IN LIBERALIZING POLICY ON RED TRADE

William H. Peterson said last April that "Communists can buy almost any American product without shopping in the United States or dealing with American businessmen." All they have to do is to "buy first-hand or second-hand American products in Western Europe or Free Asia and reship them to Communist production centers." With this in mind, Peterson asserted that—except for munitions and armaments—"Official U.S. trade policy should be one of as free trade with Communist as with non-Communist countries." Four reasons which he cited for this view may be summarized as follows:

- (1) Anti-Communist trade discrimination, however well warranted in the past, now is only fuel for the cold war.
- (2) America's restrictive trade policy, in view of the more liberal policies of major allies, is inconsistent and makes for disunity.
- (3) Failure to meet the Communist challenge in world trade reduces American prestige abroad.
- (4) The free market system allows capitalist economies to absorb imports from Communist countries and profit by exports to those countries, whereas in a totally planned and inherently rigid economy, foreign trade may be a disruptive force; the United States can use trade as a weapon in attempts to split the Soviet bloc.²²

Many critics of present U.S. policy on exports to the

²¹ Collapse of debt negotiations in January 1935 kept the First Export-Import Bank inoperative. Lending authority of the Second Export-Import Bank, created in March 1934 to finance trade with Cuba, was later extended to cover trade of the United States with all countries.

²² William H. Peterson, "Should We Trade With the Communists?" *Harvard Business Review*, April 1959, pp. 52-54.

Editorial Research Reports

Soviet Union would not go as far as Peterson in urging its liberalization; some would argue, for example, that the United States should not deliberately help the Soviet Union to clear up a serious industrial bottleneck without exacting a sizable *quid pro quo* from Moscow. Kilpatrick has written: "Trade is, after all, a two-way street." But he added: "In the long run, trade may help to relieve tensions, and Paul-Henri Spaak [Secretary General of NATO] may be right in saying that 'a rich Communist is probably less to be feared than a poor Communist'." ²³

²³ Carroll Kilpatrick, "Khrushchev's Economic Offensive," *Virginia Quarterly Review*, Summer 1959, p. 377.



